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12 **UNITED STATES BANKRUPTCY COURT**
13 **DISTRICT OF NEVADA**

14 In re:

15 USA COMMERCIAL MORTGAGE
16 COMPANY,

17 USA CAPITAL REALTY ADVISORS,
18 LLC,¹

19 USA CAPITAL DIVERSIFIED TRUST
DEED FUND, LLC,

20 USA CAPITAL FIRST TRUST DEED
FUND, LLC,²

21 USA SECURITIES, LLC,³

Debtors.

22 **Affects:**

- 23 All Debtors
24 USA Commercial Mortgage Company
25 USA Capital Realty Advisors, LLC
26 USA Capital Diversified Trust Deed Fund, LLC
27 USA Capital First Trust Deed Fund, LLC
28 USA Securities, LLC

29 Case No. BK-S-06-10725-LBR¹
30 Case No. BK-S-06-10726-LBR¹
31 Case No. BK-S-06-10727-LBR²
32 Case No. BK-S-06-10728-LBR²
33 Case No. BK-S-06-10729-LBR³

34 **CHAPTER 11**

35 Jointly Administered Under Case No.
36 BK-S-06-10725 LBR

37 **FIRST OMNIBUS OBJECTION OF
38 USACM TRUST TO PROOFS OF
39 CLAIM BASED ENTIRELY UPON
40 INVESTMENT IN THE OAK
41 SHORES II LOAN**

42 Date of Hearing: May 9, 2011

43 Time of Hearing: 2:00 p.m.

44 Estimated Time for hearing: 10 minutes

45 The USACM Liquidating Trust (the “USACM Trust”) moves this Court, pursuant
46 to § 502 of title 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) and
47 Rule 3007 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”), for an
48 order disallowing the Proofs of Claim listed in **Exhibit A**. These claims were filed by

49 ¹ This bankruptcy case was closed on September 23, 2008.

50 ² This bankruptcy case was closed on October 12, 2007.

51 ³ This bankruptcy case was closed on December 21, 2007.

1 investors (“Direct Lenders”) against USA Commercial Mortgage Company (“USACM”)
2 based upon an investment in a loan to John E. King and Carole D. King (collectively, the
3 “Borrower”) (the “Oak Shores II Loan”). This Objection is supported by the Court’s
4 record and the Declarations of Geoffrey L. Berman and Edward M. Burr in Support of
5 Omnibus Objections to Proofs of Claim Based Upon the Investment in the Oak Shores II
6 Loan. (the “Berman Decl.” and “Burr Decl.”).

7 THIS OBJECTION DOES NOT RELATE TO AND WILL NOT IMPACT THE
8 DIRECT LENDERS’ RIGHTS TO REPAYMENT ON THE OAK SHORES II LOAN
9 OR TO SHARE IN ANY PROCEEDS GENERATED FROM THE SALE OF THE
10 REAL PROPERTY SECURING THE OAK SHORES II LOAN.

11 MEMORANDUM OF POINTS AND AUTHORITIES

12 I. BACKGROUND FACTS

13 a. The USACM Bankruptcy

14 On April 13, 2006 (“Petition Date”), USACM filed a voluntary petition for relief
15 under chapter 11 of the Bankruptcy Code. Debtor continued to operate its business as
16 debtor-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.
17 Debtor’s post-petition management of the Debtor was under the direction of Thomas J.
18 Allison of Mesirov Financial Interim Management, LLC, who served as the Chief
19 Restructuring Officer.

20 USACM was a Nevada corporation that, prior to the Petition Date, was in the
21 business of underwriting, originating, brokering, funding and servicing commercial loans
22 primarily secured by real estate, both on behalf of investors and in limited instances for its
23 own account. That business included the solicitation of investors to purchase fractional
24 interest in loans that USACM originated and then serviced. These investors are referred to
25 as “Direct Lenders” in USACM’s bankruptcy case and in this Objection.

1 On January 8, 2007, this Court entered its Order Confirming the “Debtors’ Third
2 Amended Joint Chapter 11 Plan of Reorganization” as Modified Herein [Docket No.
3 2376]. As part of the Plan, and pursuant to an Asset Purchase Agreement filed with this
4 Court, USACM sold the servicing rights to most of the loans it serviced to Compass
5 Partners, LLC and Compass Financial Partners, LLC (“Compass”), including the Oak
6 Shores II Loan. The sale to Compass closed on February 16, 2007.

7 The USACM Trust exists as of the Effective Date of the Plan, which was March 12,
8 2007. Geoffrey L. Berman is the Trustee. Under the Plan, the USACM Trust is the
9 successor to USACM with respect to standing to seek allowance and disallowance of
10 Claims under 11 U.S.C. § 502(a).

11 Upon information derived in part from filings in the United States District Court,
12 District of Nevada, *3685 San Fernando Lenders Company, LLC, et al v. Compass USA*
13 *SPE, LLC, et al*, No. 2:07-cv-00892-RCJ-GWF action, the Trust believes that “Silar
14 Advisors, LP (“Silar”) financed Compass’ acquisition of the Purchased Assets, including
15 the loan service agreements in the USACM bankruptcy case and took a secured interest in
16 those Purchased Assets by executing a Master Repurchase Agreement (“Repurchase
17 Agreement”) with Compass, and by filing a UCC-1 financing statement with the State of
18 Delaware.” *Id.* Docket 1250 at 13-14 (citations to declarations omitted).

19 Further, the Trust believes that “Effective as of September 26, 2007, Silar
20 foreclosed on Compass’ interest through Asset Resolution LLC (“Asset Resolution”) and
21 took ownership of the Purchased Assets. ... Silar created Asset Resolution as a ‘single
22 purpose entity,’ conveyed all of its interests in the Repurchase Agreement to Asset
23 Resolution, and Asset Resolution foreclosed on the assets of Compass, including the
24 Purchased Assets.” (Citations omitted.) Asset Resolution LLC is now a debtor in a
25 chapter 7 bankruptcy case pending in Nevada, case no. BK-S-09-32824-RCJ, along with
26

1 certain affiliates.⁴ William A. Leonard, Jr. was appointed trustee in the Asset Resolution
2 case.

3 The Trust has attempted to monitor loan collections through monitoring the district
4 court litigation and the Asset Resolution bankruptcy case, but has received limited
5 information concerning servicing and resolution of direct loans by Compass/Silar/Asset
6 Resolution or their successors, including the trustee in bankruptcy for Asset Resolution.
7 The following is the extent of the USACM Trust's information on current services for the
8 Oak Shores II Loan.

9 By Order entered on June 24, 2010 by the Hon. Robert C. Jones in United States
10 Bankruptcy Court (Case No. BK-S-09-32824-RCJ), the servicing rights for 19 loans were
11 transferred to Cross, FLS. The Oak Shores II Loan servicing rights were transferred to
12 Cross, FLS by that Order. The Trust has been in contact with Cross, FLS with regard to
13 the status of the Oak Shores Loan.

14 **b. The Oak Shores II Loan**

15 In or around November 2005, USACM circulated an Offer Sheet to prospective
16 Direct Lenders soliciting funding for an acquisition and development loan to a borrower
17 identified as "John and Carol King" for a project generally known as Oak Shores II, which
18 consists of 343 lots near Paso Robles, California. A copy of the undated Offer Sheet is
19 attached hereto as **Exhibit B** and incorporated by this reference. (Berman Decl., ¶ 4.) The
20 total loan amount proposed was \$15,150,000. The loan proceeds were to be used by
21 Borrower to develop the real property and construct certain infrastructure improvements
22 required for the development of single family residence. The Offer Sheet described the
23 investment as a "First Trust Deed Investment" and noted that the investment would be

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⁴ 10 90 SPE LLC, Fiesta Stoneridge LLC, CFP Gramercy SPE LLC, Bundy 2.5 Million SPE LLC, CFP
Cornman Toltec SPE LLC, Bundy Five Million LLC, Fox Hills SPE LLC, HFAH Monaco SPE LLC,
Huntsville SPE LLC, Lake Helen Partners SPE LLC, Ocean Atlantic SPE LLC, CFP, Gess SPE LLC, CFP
Anchor B SPE LLC, and Shamrock SPE LLC.
26

1 secured by a first deed of trust on approximately 400 acres of land in San Luis Obispo
2 County on Lake Nacimiento. The Offer Sheet indicated that the loan would be repaid
3 from the sale of lots to individual buyers and from a bulk sale at final map to a third party.
4 The Offer Sheet also stated there would be a loan to value ratio of approximately 60%
5 based on an appraisal prepared by Ryon Associates. The Ryon Associates appraisal
6 estimates the bulk value of the property to be \$25,300,000 as of March 7, 2005.

7 On June 6, 2005, Borrower made and delivered to various lenders, including the
8 Direct Lenders identified in **Exhibit A**, a “Promissory Note Secured by Deed of Trust”
9 (the “Note”) and a Construction Loan Agreement (Berman Decl., ¶5.) The Note and Loan
10 Agreement provided for a loan in the initial principal amount of \$7,725,000. Pursuant to
11 subsequent amendments to the Note and Loan Agreement, and as expressly permitted by
12 the Loan Agreement, the amount of the loan was eventually increased to \$15,150,00. The
13 Note was secured by a Deed of Trust, Assignment of Rents, Security Agreement and
14 Fixture Filing (the “Deed of Trust”) that was recorded in the official records of San Luis
15 Obispo County, California on July 1, 2005. (Berman Decl., ¶ 5.) Subsequent loan
16 advances were secured by amendments to the Deed of Trust, and were likewise recorded
17 in the official records of San Luis Obispo County.

18 According to information provided to the undersigned counsel, pursuant to its
19 terms, the note was scheduled to mature twelve months after the loan documents needed to
20 close were deposited with the title company. According to the USACM “Loan Summary”
21 filed in this case, the loan was non-performing as of July 31, 2006. According to Cross,
22 FLS, the loan remains non-performing, no amounts have been collected from the Borrower
23 since Cross, FLS took over servicing of the Oak Shores II Loan, and the collateral
24 securing the Oak Shores II Loan has not been sold.

25 According to USACM’s business records, during this bankruptcy case through the
26 transfer of servicing to Compass, USACM treated the Direct Lenders with respect to any

1 interim payments by the borrower in accordance with this Court's orders and the
2 confirmed Plan.

3 **c. Lenders' Claims On The Oak Shores II Loan.**

4 **Exhibit A**, attached, lists Proofs of Claim filed by Direct Lenders that appear to be
5 based upon an investment in the Oak Shores II Loan. (Burr Decl. ¶ 7.) **Exhibit A**
6 identifies the Proof of Claim number, the claimant, the claimant's address, the total
7 amount of the claim and the total amount of the claim that appears to be related to an
8 investment in the Oak Shores II Loan based upon the information provided by the
9 claimant. (Burr Declaration ¶ 7.) The claims listed in **Exhibit A** are referred to
10 hereafter as the "Oak Shores II Claims." As required by Nevada LR 3007, a copy of the
11 first page of the proof of claim for each of the above-referenced claims are attached as
12 **Exhibit C.**

13 **II. JURISDICTION**

14 The Court has jurisdiction over this Objection pursuant to 28 U.S.C. §§ 1334 and
15 157. Venue is appropriate under 28 U.S.C. §§ 1408 and 1409. This matter is a core
16 proceeding under 28 U.S.C. § 502 and Bankruptcy Rule 3007.

17 The statutory predicates for the relief requested herein are 11 U.S.C. § 502 and
18 Bankruptcy Rule 3007.

19 **III. APPLICABLE AUTHORITY**

20 Under the Bankruptcy Code, any Claim for which a proof of claim has been filed
21 will be allowed unless a party in interest objects. If a party in interest objects to the proof
22 of claim, the Court, after notice and hearing, shall determine the amount of the Claim and
23 shall allow the Claim except to the extent that the Claim is "unenforceable against the
24 debtor . . . under any . . . applicable law for a reason other than because such claim is
25 contingent or unmatured." 11 U.S.C. § 502(b). A properly filed proof of claim is
26 presumed valid under Bankruptcy Rule 3001(f). However, once an objection to the proof

1 of claim controverts the presumption, the creditor ultimately bears the burden of
2 persuasion as to the validity and amount of the claim. *See Ashford v. Consolidated*
3 *Pioneer Mortg. (In re Consolidated Pioneer Mortg.)*, 178 B.R. 222, 226 (9th Cir. B.A.P.
4 1995), *aff'd*, 91 F.3d 151 (9th Cir. 1996).

5 **IV. THE OBJECTION**

6 The Oak Shores II Loan appears to have been a legitimate, arms-length transaction,
7 with a third party borrower. The Direct Lenders took a known risk by investing in a
8 promissory note secured by liens on real property.

9 The Direct Lenders listed in **Exhibit A** fail to state a claim based upon the Oak
10 Shores II Loan because USACM did not guarantee the Direct Lenders' investment in the
11 Oak Shores II Loan.

12 USACM is not liable for the Borrower's default or any decrease in the value of the
13 collateral.

14 The Direct Lenders fail to state a claim because USACM does not appear to have
15 breached the loan servicing agreements with respect to collection of the Oak Shores II
16 Loan. USACM was under no duty to foreclose on the collateral securing the Oak Shores
17 II Loan or take any other action.

18 This objection will not affect the Direct Lenders' right to be repaid on the Oak
19 Shores II Loan by the Borrower, or to recover from the sale of any collateral that secured
20 the Oak Shores II Loan.

21 **V. CONCLUSION**

22 The USACM Trust respectfully requests that the Court disallow the claims against
23 USACM listed in **Exhibit A** in full because those claims are based entirely upon an
24 investment in the Oak Shores II Loan. This objection concerns only the Oak Shores II
25 Loan and not any other claims of any of the Direct Lenders. The USACM Trust also
26 requests such other and further relief as is just and proper.

1 Dated: April 11, 2011.

2 LEWIS AND ROCA LLP

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11 Copy of the foregoing and pertinent
12 portion of Exhibits mailed by first
13 class postage prepaid U.S. Mail on
14 April 11, 2011 to all parties listed on
15 Exhibit A attached.

16 LEWIS AND ROCA LLP

17 s/ Marie Mancino
18 Marie Mancino

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